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Supreme Court to Soon Hear Argument in the Arthrex Dispute

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On March 1, 2021, the Supreme Court will hear argument on the constitutionality of the statutory framework for Administrative Patent Judges ("APJs") to preside on the Patent Trial and Appeal Board ("PTAB") of the United States Patent and Trademark Office ("USPTO"). APJs have become increasingly important to the functioning of the patent system because these judges hear validity challenges to issued patents under *inter partes* review, post grant review, and certain business method review procedures established by the Leahy-Smith America Invents Act ("AIA"), among other matters, in the USPTO.

As detailed in a previous IP Alert, petitions for *certiorari* were granted by the Court to review the decision by the Court of Appeals for the Federal Circuit holding that the statute enabling placement of APJs at the PTAB without appointment by the President or consent of the Senate was unconstitutional under the Appointments Clause of the U.S. Constitution, Art. II, § 2, clause 2 because APJs were best categorized as "principal officers." Further, review was granted on the question of whether, assuming there is a constitutional infirmity, the Federal Circuit properly cured the AIA statute by severing certain AIA statutory employment protections provided to APJs so as to effectively make them at will employees of the federal government.

With briefing on the merits concluded, the positions of the United States, patent challenger Smith & Nephew, and patent owner Arthrex have crystallized, and some takeaways become evident.

Main Arguments of the United States and Smith & Nephew

These petitioners' primary argument is that the Federal Circuit improperly characterized APJs as "principal officers." Relying on *Edmond v. United States*, 520 U.S. 651 (1997), they argue the level of control and supervision the Secretary of Commerce and USPTO Director exercise over APJs is sufficient to consider APJs as inferior officers under the Appointments Clause. As such, APJ appointment under the AIA by the Secretary of Commerce, and without Senate confirmation, is constitutional because only "principal officers" must be confirmed by the Senate. The United States argues that the Federal Circuit did not fully appreciate the analysis required by *Edmond*, and improperly distilled a checklist of three supervisory mechanisms as touchstones determinative of whether a federal employee is a "principal officer" or an "inferior officer." Similarly, Smith & Nephew argues that the Federal Circuit created a rigid and inflexible test that departed from the "pragmatic approach" of *Edmond*, and when the totality of the AIA is considered as to APJ supervision and control, APJs should be considered "inferior" officers.

Main Arguments of Arthrex

Respondent Arthrex argues that the AIA established a mechanism for adjudication by APJs that is different than the standard adjudication procedure established by the Administrative Procedure Act,

where an agency head traditionally has the power to review formal adjudications before they become effective. Arthrex argues that in the case of the AIA, the statute requires a PTAB final written decision be issued by at least a panel of three PTAB members, and only one potential member of the PTAB – the USPTO Director – is appointed by the President and confirmed by the Senate. For this, among several other reasons, Arthrex argues the Federal Circuit correctly followed *Edmond* and found APJs as principal officers, and therefore all APJs unconstitutionally appointed.

But Arthrex's agreement with the Federal Circuit stops there. Arthrex takes issue with the Federal Circuit's attempt to fix the constitutional infirmity by severance of certain APJ employment protections. Arthrex argues that lesser employment protections will not change APJs into "inferior officers" and that correction of the AIA is a policy decision that Congress, not the courts, should make. Arthrex suggests congressional action through (1) Senate confirmation of APJs; (2) alteration of the AIA to grant the USPTO Director to review every PTAB final written decision; or (3) passage of legislation to "reject inter partes review" and reserve the power to invalidate patents to the district courts. Counting over ten remedies identified in the parties' briefs and the thirty-one (31) amicus curiae briefs to cure the constitutional infirmity, Arthrex argues the Court should either dismiss the *inter partes* review case before the Court or "clear the decks" for Congress to act by holding the current *inter partes* review procedure itself unconstitutional.

Reply Arguments of the United States and Smith & Nephew

In reply, and after reiterating their *Edmond* arguments, these petitioners called foul on Arthrex's hail mary play for declaring *inter partes* review unconstitutional. Arguing that the Court's precedent establishes a strong presumption in favor of invalidating only particular portions of a statute, the United States argues in favor of the Federal Circuit's remedy severing certain employment protections to APJs. Further, the government suggests that if the Federal Circuit remedy falls short of constitutional requirements, the Court could further sever the AIA requirement that only the PTAB can grant rehearings, thereby providing the USPTO's Director (who is confirmed by the Senate) with review and reversal power over PTAB decisions. For its part, Smith & Nephew argues against Arthrex's proposed dismissal remedy because Arthrex forfeited the argument by not arguing for this before the PTAB or the Federal Circuit. As for a remedy, Smith & Nephew supports the government's arguments, and further argues that other provisions of the AIA could be severed.

Reply Arguments of Arthrex

Arthrex replies that the Federal Circuit's attempt to cure the constitutional violation would never have been adopted by Congress, and the Court should not speculate as to Congress's preferences by severing any part of the AIA.

Takeaways

The *Arthrex* dispute before the Court will result in opinions that will likely affect constitutional law, administrative law, and patent law for years to come. The 1997 precedent of *Edmond* is recognized by all as controlling on the threshold question of whether an APJ is a "principal officer" within the meaning of the Appointments Clause. That opinion was authored by Justice Scalia, and only two Justices who ruled in that case, Justice Thomas and Justice Breyer, remain on the Court today. *Arthrex* will provide the current Court with the opportunity to address the unique Appointments Clause issues presented by the AIA, and to perhaps shed further light on how federal courts should address Appointments Clause challenges to future administrative law judge appointment and oversight regimes.